

ALBANIA:

Development of the Not-for-Profit NGO Sector

OVERALL RANKING: 4.2

Albania is an extremely polarized society -- evident not only between political parties, but between urban and rural sectors, between the status of men and women, as well as a widening generational gap. Given the severe and widespread persecution of many during the Hoxha regime, it is not surprising that much of the political atmosphere is charged with a sense of vindication and retribution. The collapse of the financial pyramid scheme was the trigger for social upheaval during 1997, which showed both the Albanians and the international community how far Albania had yet to go to develop a stable civil society.

Albania lacks a tradition of conflict resolution without the use of violence, and though in a recent national survey widespread corruption and criminal activity are prominent concerns of the country's citizens, "lawlessness" has also made it extremely difficult for foreign donor organizations to work outside Tirana. In turn, the lack of assistance has resulted in a precipitous disintegration both of infrastructure and of the social safety net. The lack of effective social assistance during a difficult economic transition has turned people back to their traditional extended family structure, bringing with it a resurgence of the blood feud (Kanun and Hasmeri) as a method of resolving social conflict outside the major cities, and the growth of modern "gangs" in urban settings.

Overall, the NGO sector, while attracting more than its share of those with entrepreneurial spirit and energy, still reflects the larger environment. NGOs were unknown in Albania before the fall of communism, and since then it is estimated that from 300 to 400 organizations have registered. Approximately 50% of those are engaged in some sort of regular activity. Most are located in Tirana, though a few, mostly supported by foreign donors, have networks around the country. At present, the relatively small proportion of donor funds going to NGOs are being channeled to organizations working in civic education, advocacy and activities to support the passage of the proposed Albanian Constitution. Other strong NGO sectors include the environment, youth and women.

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1998

LEGAL ENVIRONMENT: 4.0

Progress: In January of 1998, the Ministry of Labor agreed to participate in a working group consisting of NGOs and other government representatives to draft a new comprehensive NGO law. The draft reflects international best practices and is the most progressive in the Balkans. The Civil Code presently provides the basis for associations and foundations in Albania. The Code consists of 10 articles on foundations and 14 on associations. Examples of its ambiguities are: lack of definition of a non-profit organization; an obtuse definition of foundations (which permitted the pyramid schemes to register as foundations); the extent of the Ministry's power to supervise foundations is unclear; the number of founders required to form an association is not stated; associations are precluded from engaging in economic activity which leaves them legally unable to

charge fees for their services; articles dealing with documentation required to register NGOs are missing important provisions; and finally, the distinction between activities that are for public benefit or private interest is unclear.

At present, few NGOs pay a profit tax, but neither does the law offer them a clear exemption. As of the end of 1994, businesses may make deductions for their donations to some NGO activities, though individuals are not allowed to do so. What exemptions there are for NGOs' economic activities remain unclear. Even if the new NGO law is enacted, it is not at all certain that the Ministry of Finance intends to work on revisions to the tax laws applicable to NGOs.

ICNL estimates that, at present, approximately fifteen Albanians have demonstrated a thorough understanding of NGO legal issues. Along with this core group, there are also approximately 50 NGO representatives, Members of Parliament and Albanian Government officials who have been exposed to NGO issues at roundtables and meetings concerning the draft law. The future of the NGO sector in Albania now hinges on the passage of this law, perhaps late in 1998 or early in 1999.

ORGANIZATIONAL CAPACITY: 4.0

Before the 1997 crisis in Albania, NGO support programs were aimed at building organizational capacity. However, when the donors returned to country, assistance was targeted to emphasize rule of law and legislative issues. While grants and support have been forthcoming for NGO advocacy work, Albanian NGOs are still in the earliest stages of organizational development. There has been little offered in terms of strategic planning, board and staff formation, much less work with volunteers or fundraising and only a small group of local trainers has been prepared to date. The lack of more than a few developed local trainers means that widespread organizational capacity for NGOs is still very much in the future.

The few NGO resource centers that exist are still some distance from being able to offer more than the most basic services. Several hold workshops in English language and computer skills, while another collects NGO data, and still another provides some basic services such as photocopies and computer access. Donor organizations have offered specialized workshops for NGO sectors, while others support NGOs with one-on-one technical assistance, but the resource centers appear to be competing for resources more than they are supplying them.

Most importantly in a transitional economy where the society is in dire need of expanded social service capacity, there has been the barest minimum of support for NGOs attempting to engage in expanding community participation, or to provide adequate services to their memberships. With a few notable exceptions, the majority of NGOs in Albania remain donor driven and most are made up of one to three core members and a strong leader. Unfortunately, most donors have exercised little oversight during the grant process, and as a result, the NGOs have not fully benefited from the process of monitoring and evaluation.

Donors that provide technical assistance are achieving more notable results. One example is in the agricultural sector where both the Poultry and Meat Processors Associations have enlarged their memberships, developed both quality and protective standards for their industries, and have developed into organizations with increasing public support due to their targeted and visible activities. The Farmer's Union is probably the largest NGO in Albania with a democratically elected board working on a voluntary basis.

FINANCIAL VIABILITY: 5.0

Most support for Albanian NGOs comes from the foreign donor community. There was no tradition of philanthropy before the communist era other than religious prescription. Furthermore, as in most other communist countries, required activities for factory groups and young pioneers were labeled "volunteerism", and the concept acquired the same negative connotation as it has in the NIS and in much of Central and Eastern Europe. Though the image is changing in Albania, the challenge for local fundraising is still to be met. It will be particularly difficult in Albania with business only just beginning to develop, and little support expected from a government facing major financial, infrastructural and social problems. Some NGOs have managed to successfully sell their services to each other and to the private sector, but the future depends on the government permitting the NGO sector, or at least not creating barriers to the generation of income.

ADVOCACY: 4.0

Between 75 and 100 NGOs in Albania have received training in policy advocacy to date. Some have also taken part in cross-sector advocacy workshops. Of a total of 57 grants given to local NGOs by the USAID-sponsored Democracy Network (DemNet) project, approximately 40 have supported the drafting of legislation, roundtables and other advocacy activities. There are excellent relations between various ministries and some NGO leaders, and many of the Parliamentary Committees are open to NGO feedback during public hearings. As a result, there has been some progress in the NGOs' ability to lobby on a national level, especially in the environmental sector. The Parliamentary Committee on Agriculture has also held public meetings on a number of issues with the 20,000 member National Albanian Farmers' Union.

Though local government in Albania is still without much power of its own, and control of finances continue to be maintained at the central level, NGOs have made some progress in cooperation with local authorities. The network of Youth Councils has been granted office space in a number of municipalities outside Tirana, and some environmental groups have worked on joint projects with a number of city administrations. There are a growing number of locally based NGOs, and it is likely that if some of the present decentralization projects underway are successful, the objective of local government-NGO cooperation will benefit.

However, because the organizational capacity of the Albanian NGO sector is so limited, the cooperation between NGOs is seriously underdeveloped. Rather than sharing information and strategy, there is a competitive atmosphere inspired by dependence on foreign donor funding. Most cooperation between NGOs tends to be the result of donor prodding to produce a sectoral event. Moreover, NGOs often reflect the polarized partisan politics of Albania, over which donors can exercise little influence at this point in time. Given the politically charged atmosphere, the gains in advocacy skills made by Albanian NGOs will be tenuous until they are able to support their own coalitions and umbrella groups.

PUBLIC IMAGE: 4.0

According to a recent survey, no more than 11% of Albanians are active in NGOs. Of these, less than half actually understand that NGOs can accomplish things that the government can not. The rest have trouble identifying the role of NGOs in society. In general, respondents agree that NGOs are important to Albania's future and that they can contribute to the country's social and economic development.

The majority of Albanians do not know much about the NGO sector. This may be partly because there has been little output from the sector that effects the society as a whole. NGO leaders recognize the need to focus on concrete results. This was underscored during the period of unrest during 1997, when NGOs were one of the few sectors of society to continue functioning. Unfortunately, the media has taken little notice of the NGO community, either before or after the 1997 crisis. Public service announcements are a new phenomenon. NGOs have little idea of how to publicize themselves beyond the basic press conference. Even worse, the Albanian media is not noted for its close attention to factual detail, so when an NGO activity is described, the media tends to promote the competitive atmosphere that already exists in the NGO sector rather than what the NGO hopes to do to promote the growth of civic society.

ARMENIA:
Development of the Not-for-Profit NGO Sector
1998

OVERALL RANKING: 5.5

With the legislature's passage of a new and more contemporaneous civil code, it is expected that tax issues related to NGOs will be clarified for the benefit of the sector, and enable NGOs to move closer to securing their financial sustainability. Further training to strengthen management, advocacy, communication and fundraising skills is imperative. This training will give NGOs the confidence and credibility to approach government officials and local businesses (to seek funding other than international donor resources), and to encourage the formation of alliances among NGOs with common goals. More comprehensive "training of trainers" programs are necessary to ensure that training skills in all aspects are available to NGOs located in remote regions and far from local NGO support centers.

LEGAL ENVIRONMENT: 5.0

Progress: Under the current law, NGOs are capable of forming "daughter enterprises" to raise revenue to fund the NGOs' activities. They are able to open bank accounts and to operate legally. NGOs realize the need to address their tax status, and a core of NGOs are beginning to be more active in addressing legal/regulatory issues with the government. At present, only one association of lawyers has taken the initiative to provide *pro bono* legal council to NGOs on registration and tax procedures.

Constraints: NGOs based in regions outside of the capital encounter difficulties in registering with the Ministry of Justice (MOJ), because local municipalities lack the infrastructure to process registration. NGOs based in the regions are often forced to travel to the capital to register with the MOJ, incurring additional transportation costs and time. The law (1996) only recognizes one type of voluntary/assistance entity, "public organizations". It provides no clear distinction between different types of NGOs, or standards regarding internal management and governance. A majority of NGOs lack a clear understanding of tax provisions, procurement procedures, and the bureaucratic paperwork-intensive hurdles of the registration process, which is burdensome and unsystematic. NGOs' entrepreneurial operations are taxed like local businesses, inhibiting sustainability.

ORGANIZATIONAL CAPACITY: 5.0

Progress: A limited number of NGOs (10-20) have clearly defined missions, staff members, boards of directors and volunteer networks. Most NGOs still remain "one-man-shows". As a result of training, a growing number of NGOs have improved their proposal writing and strategic planning skills. NGO coalitions have been formed in the areas of environment, gender issues, refugee status, and social sector services, primarily for the elderly and the disabled. Typically, NGOs with established and on-going relationships/partnerships with international donors are able to write convincing proposals and implement projects successfully in the eyes of donors and grant-making organizations, maximizing their possibility for survival and continued support.

Constraints: The vast majority of NGOs are still one-man operations that do not exercise teamwork skills. They lack clearly defined mission goals and objectives, financial and accountability structures, and message development skills to adequately communicate with their constituents, government and media.

FINANCIAL VIABILITY: 6.0

Progress: For the most part, NGOs navigate from one grant to another. The sector is largely dependent upon international donor funding. Though many NGOs have formed successful partnerships with international relief organizations, these partnerships often subside after the life of the project, with limited continuity. A small corp of NGOs with experimental fundraising skills have earned limited contributions from local businesses. Most fundraising is targeted at international donors/organizations. Fees-for-service to the public are limited. Some NGOs, mostly based in the regions, have established good rapport with local government officials, who have provided in-kind support in the form of office space, staff salaries, or transportation costs. These examples are limited, and largely depend upon the personal relationships between NGO leaders and local authorities.

Constraints: The economic environment and unfavorable tax regulations discourage philanthropic deeds and private business contributions, due to the fear of being taxed. The strong personalities exerted by most NGO leaders cause NGOs to avoid cooperation in areas such as sharing costs for similar activities, public awareness campaigns or sharing an accountant. NGOs tend to be zealous and competitive for funding. The absence of clear legislation on the status of grants and tax exemptions inhibits NGO sustainability.

ADVOCACY: 6.0

Progress: Some small but notable progress has been made in recent months. Some NGOs (26) have successfully lobbied government to improve legislation in the areas of environment, gender issues, social services, refugees and NGO legislation/grants/charity status. Some NGOs have been invited to participate in public hearings or to submit recommendations on specific issues (i.e. on the electoral law, on the media and broadcast laws, on environmental laws).

Constraints: NGOs lack a basic understanding of the role they can play to influence reforms and public policy. Only a limited number of issue-based coalitions exist. The concept of lobbying is very new to NGOs, and no formal mechanism exists to facilitate NGO participation with government at higher levels. NGOs, concerned with the survival of their operations and in securing donor funding do not take full advantage of opportunities to form coalitions to increase awareness about specific issues, and raise them in a comprehensive manner with local authorities. Those cases where NGOs have successfully lobbied are not spontaneous initiatives, but are often hand-led by international organizations. Instances exist where government has hand-picked NGOs that it wishes to cooperate with. Fierce competition for funding among NGOs largely restrains the willingness to share information, form coalitions and advocate for mutual concerns to government authorities. Essentially, common causes are not presented nor acted upon in a team effort. Further training in developing effective advocacy skills is required.

PUBLIC IMAGE: 5.5

Progress: Media outlets (mostly independent TV stations supported by USAID-funded providers) occasionally cover NGO stories, but not on a regular basis nor in an analytic way. Some local government officials have expressed interest in helping NGOs and have provided limited in-kind services. Some NGOs, particularly those that have had the opportunity to work closely on joint projects with international organizations, have assimilated and understood the need to increase public awareness on behalf of the NGO sector. NGOs are capable of exercising appropriate communications skills when reporting to donors, but don't take this a step further to inform media, constituents and the public at large of their successes.

Constraints: Most NGOs lack professional skills and an understanding of the importance of communicating with constituents, beneficiaries and the public at large. Much of their outreach is targeted at international donors in order to gain credibility, and thus, future project funding. NGOs are only active in reporting back to donors, and are generally passive in highlighting their successes with government or media. This is partially due to a lack of understanding of the power of spreading information to targeted audiences, cultural modesty/shyness, and to dubious popular perceptions about NGOs. The public at large, including government, is mostly unaware of NGOs' goals and their role in society. There is general media apathy and disinterest towards NGOs' activities. Limited media coverage on NGOs is more often critical and scandalous in nature, rather

than serious reporting that reflects factual successes.

AZERBAIJAN:
Development of the Not-for-Profit NGO Sector
1998

OVERALL RANKING: 6.3

Considering the lack of both NGO legislation and a basic grants law, it is fair to say that the current state of the Azerbaijani Third Sector shows little or no progress since the Soviet period. The virtually impossible registration process and the unclear tax status of grants, makes it difficult for organizations to develop and become financially viable. The public image of NGOs remains unknown or negative despite some recent progress. This is primarily due to inaccurate government perceptions and generally poor public awareness. NGOs are not in a position to affect public policy even if there were mechanisms for this within the current authoritarian structures. While individual NGOs are developing management skills, particularly in the areas of proposal-writing and fundraising, there remains a lack of creativity, sophistication, and professionalism which would foster greater cooperation and lead the sector closer toward sustainability.

LEGAL ENVIRONMENT: 7.0

Progress: Many NGOs operate as unregistered organizations. As of the time of this review, a grants law has been approved by the parliament, but has not been signed by the President and enacted into law. It is not yet clear to what extent this law will make grants tax exempt, if enacted. Few NGOs are currently operating in compliance with existing legislation. There have been limited incidents of government investigation and/or harassment of NGOs. A recent project of the International Center for Not-For-Profit Law (ICNL) created a proposal for a comprehensive NGO law which may be submitted to the parliament in the near future. This will probably not happen before the end of 1998.

Constraints: The lack of adequate legislation governing the work of NGOs is the main barrier to development of the sector. The existing law "On Social Organizations" is vague and unworkable. There is currently no law on grants, which are presumed to be taxable. Registration of new NGOs is nearly impossible. The process is controlled by the Ministry of Justice. The lack of adequate legislation enables the Ministry to delay registration indefinitely. Regional NGOs are forced to register in Baku. Many NGOs report incidents of corruption and bribery in the process. Within the past six months there have been reports of government investigation of the activities of certain NGOs, although the majority of NGOs work without direct government harassment. NGOs which have not yet registered, or which are in the process of registration, cannot establish bank accounts

and may in fact be considered by government officials to be operating illegally if they attempt to conduct activities. There are no active and registered NGOs working in the legal sector, and there is no core of local lawyers working on NGO law, legal reform, or providing NGOs with free legal advice.

ORGANIZATIONAL CAPACITY: 6.0

Progress: A small corps of NGOs, working generally in the social fields, has shown greater capacity following training and cooperative involvement with donors and partner organizations. NGOs have developed basic skills in strategic planning and fundraising, with training support provided by a USAID grantee that also offers more advanced management training and distributes training materials in the local languages. One local NGO maintains a sector-specific resource library for other local NGOs, with international financial support.

Constraints: Many NGOs are one-person shows and do not have a corps of staff and volunteers who contribute to the organization's activities. Boards of directors generally exist on paper only. Organizational charters are vague and do not contribute to the NGOs' development. Few NGOs have a clearly defined mission, nor do they appear to recognize the importance of distinguishing themselves from other NGOs or of focusing on their own core competencies. NGOs are often involved in personality clashes with other NGOs, and there is almost no attempt at coordination or cooperation among NGOs working in similar fields. Many NGOs work out of their director's home and do not have access to email and/or fax machines. Difficulty with registration hinders the creation of a critical mass of more developed NGOs. There are no local organizations focused on and providing NGO training.

FINANCIAL VIABILITY: 6.0

Progress: NGOs are gradually improving their proposal-writing skills. Training and rounds of competitive grants have proven effective. There is adequate training support in proposal-writing, strategic planning, and fundraising, given the number of NGOs active in Azerbaijan. Several organizations have received grants from two or more donor agencies and a few have acquired in-kind support, such as office space, from government structures (schools, municipalities, etc.). There is potential for funding support from foreign companies, because of oil investment, although these sources have not yet begun to be tapped on a large scale due to ambiguous tax legislation.

Constraints: Most NGOs operate from one grant to the next, provided by one or more international donor agencies. A few organizations have become implementing partners of international relief NGOs, and are entirely dependent upon this relationship. Some financing is provided by membership fees. Local fundraising efforts are hampered by the depressed economy. The government provides little or no financial support. Fundraising skills are relatively weak and primarily focused on international donors. Most NGOs do not understand how to communicate with potential donors, and believe that they are in some way entitled to financial support for their activities. The competitive nature of fundraising dissuades NGOs from working with each other, or even from sharing ideas, successes, etc. Due to the relatively large amount of funding available and given the small number of local NGOs, it is not difficult to secure funding for projects. This can make NGOs complacent and less likely to improve their skills. The absence of a grant law and clear tax exemption of grants, makes fundraising dangerous. Accepting a grant may make the NGO liable to the tax authorities and thus inhibit their efforts in the first place. There is no legal basis supporting revenue generating activities of NGOs.

ADVOCACY: 6.5

Progress: Some NGOs working on specific social issues (the disabled, health care, etc.) have begun to conduct research and/or develop information to provide to government structures and parliament in order to promote their objectives. These groups tend to have close relationships with the government. One NGO assisted a parliamentarian in the preparation and submission of a draft grant law, though no other NGOs were involved in advocating for this law's passage.

Constraints: The current regime and political situation make it very difficult for NGOs to play an active role in public policy. The government does not understand the concept of NGOs as policy advocates and in fact appears threatened by the existence of NGOs. A few active, "would be" advocacy organizations are unregistered and are considered illegal by the government. Most organizations do not become involved in advocacy because there is no real means for participating in the political process. They feel that it is not possible to affect change within corrupt and authoritarian government structures. There is a hesitance to deal with the government, because of the shaky legal and tax status of all NGOs, or appear critical of the government, for fear of repercussions. There are no umbrella organizations or coalitions of NGOs working to further their members' goals.

PUBLIC IMAGE: 6.5

Progress: Some NGOs have become increasingly effective in gaining media coverage, generally through the assistance of personal contacts. NGOs with close alignment or some connection to the government have effectively focused government attention on their activities. This often yields no more than a patronizing speech and empty promises of support.

Constraints: The public is generally uninformed about NGOs. The government is not only uninformed, but is clearly suspicious of NGOs. It seems to consider some NGOs as a threat to the authoritarian state. The government perceives, and often characterizes NGOs in the press, as political opposition groups. "Non-governmental" is more often perceived as "anti-governmental". There is not a good understanding of the concept of non-profit within society (even among some NGOs). NGOs may be perceived by many among the population as either former Soviet professional associations or clubs, or as ineffective social organizations. The media is not particularly independent and rarely covers the activities of NGOs. The public image of NGOs is particularly bad in the regions beyond Baku. Some NGOs are hesitant to present themselves and their activities publicly due to the tax status of grants. There is not yet a recognition of the importance of representing the NGO sector and its role to the public.

Concluding Note:

In the past year, the legal situation with regard to registration has steadily worsened. It is considered to be virtually impossible for ANY NGO to become registered at present without a significant bribe, regardless of their activities. The President and Government officials have made steadily stronger statements warning of the political nature of NGOs, to the point of naming certain un-registered human rights organizations as "illegal." Following the President's visit to the U.S. last year, an investigation into the activities of certain more developed NGOs was conducted, which bordered on harassment. Despite these hindrances, ISAR continues to see progress in the development of local NGOs. While a year ago there were virtually no NGOs interested in management training, today there is a constant waiting list of NGO representatives interested in signing up for ISAR's month-long courses. Each small grant round shows significant improvement in the quality of proposals, and project quality is gradually improving as well. ISAR's database of NGOs has increased from 50 organizations a year ago to almost 140 today. Many of these are new initiative organizations. Significantly, a very small but increasingly strong core of NGOs is developing into true organizations with staff, volunteers, and a degree of respect within society. It is clear that a solution to the problem of registration and a new NGO law would enable a critical mass of new groups to raise the standard and begin to effect some change.

BOSNIA AND HERZEGOVINA:

Development of the Not-for-Profit NGO Sector

1998

OVERALL RANKING: 5.6

Modern NGOs evolved in Bosnia and Herzegovina (Bosnia) during, and in the aftermath of war. The sector's evolution cannot be divorced from the broader consequences of the war, including the devastation of Bosnia's political, economic and social fabric; the country's division into two Entities; politically-driven restrictions on freedom of movement, association and expression; and intensive international involvement.

The sector's early service orientation grew out of immediate war-time imperatives, the influence of international humanitarian relief organizations and the availability of donor funding for emergency assistance programs. The post-war period has seen the emergence of NGOs committed to a broader range of activities associated with "civil society development" including gender issues, human rights and media monitoring, legal advisory services, civic education, conflict resolution, and micro-credit extension. The "cultural divide" within the NGO sector community is significant and exacerbated by the fact that, due to the economic situation, working for an NGO remains a source of employment for many rather than a mission.

The unprecedented international presence in Bosnia, itself a function of the war, has had both positive and negative effects on NGO sector development. In some cases it has ensured that NGOs have received resources, training and technical assistance to establish themselves. In others it has contributed to what observers describe as an "ownership gap." Organizations that have come together at the urging of expatriates or in response to the existence of international funding suffer from a weaker sense of mission and commitment than those who formed independently in response to community needs. Fluid donor priorities, diversity of funding cycles and unwillingness to fund core operational costs have bred confusion, inefficiency and short-term planning among NGOs. Time, limited financial support, and skill-building will best nurture the organic development of a singularly "Bosnian" not-for-profit sector.

Estimates of the number of active indigenous NGOs range from 250-500 with the discrepancy explained by inconsistent registration patterns and definitions of NGO activity. The organizational capacity and project interests of NGOs differ from organization to organization and region to region, with a greater concentration of project-oriented, and institutionally developed NGOs in urban centers. Organizational and representative structures are nascent but developing, as is indigenous training capacity. An increasing number of organizations recognize their potential to effect socio-economic and political debate, public policy advocacy is rare.

The legal sector remains in flux in both the Federation of BiH and the Republika Srpska -- the two Entities comprising the state of Bosnia and Herzegovina. The lack of clarity as to what the legislative framework will look like and how it will be implemented not only causes uncertainty within the sector, but also may serve to galvanize NGO advocacy.

LEGAL ENVIRONMENT: 5.0

The constitution of Bosnia and Herzegovina confers all powers not specifically assigned to the state to its two Entities: the Federation of Bosnia and Herzegovina and the Republika Srpska. NGOs operate under a confusing, fluid, and potentially restrictive array of laws including, *inter alia*, a Law on Humanitarian Activities and Organizations, a Law on Citizen's Associations and a newly passed Law on Foundations and Funds in the Federation, as well as a Law on Citizens Associations in the Republika Srpska. Regulations in the Entities are inconsistent, effectively prevent state-wide NGO registration or operations, and tend to create large scope for government involvement in the affairs of associations and foundations.

A task force of Bosnian lawyers has convened under the auspices of a collaborative 18-month Law Education and Advocacy ("LEA") Project to develop an enabling legal environment for the not-for-profit sector while coordinating a national advocacy campaign to prepare ground for the adoption and passage of new legislation. The authorities' response to new legislation has been inconsistent, and the lack of clarity as to how the legislative framework will evolve causes considerably anxiety within the sector.

ORGANIZATIONAL CAPACITY: 5

Institutional capacity in areas such as strategic planning, developing and maintaining democratic management structures, project implementation and accountability, membership outreach, and personnel and volunteer management, varies greatly from organization to organization and region to region. Regionally, the strongest NGOs are located in Tuzla, Zenica, Sarajevo, and Banja Luka. Sectorally, micro-credit and women's organizations appear to be organizationally and financially strongest.

In the last ten months, NGOs have launched numerous initiatives to convene locally, regionally and nationally. A large number of NGOs have been engaged in inter-Entity activities--seminars, roundtables, training -- for some time now. Some also have partner organizations across the IEBL with whom they work on common issues, like return. A smaller number of NGOs have established offices in both Entities, working on issues including human rights, women's issues and democracy-building. The legal environment complicates their work by impeding "state-wide" or mutual recognition of registration so those that are formally operating in both Entities have had to register twice.

While these demonstrate the sector's growing interest in collaboration, they have not yet produced practical, issue-oriented action. After an initial burst of activism, the fora appear to be stagnating for a number of reasons: they are convened along geographic rather than substantive lines and as a result bring together organizations with few common interests; the phrase "networking" has

become common currency but its purpose remains poorly understood, participant NGOs therefore lack a clear understanding of why they attend fora; a high turn-over leads to a leadership gap; enthusiastic international support for the fora threatens to promote cooperation in the interest of funding rather than a shared mission; and constituent NGOs lack the organizational development, strategic planning, and advocacy skills to give life to the fora. As one NGO leader suggested, a “house should be built from its foundation, not its roof.”

Numerous international organizations provide “training” to NGOs via group seminars or workshops. Indigenous training -- considered both more relevant and efficient -- is widely perceived as preferable to ongoing expatriate-led training. It is, however, in its very early stages of development. Indigenously produced or local language training materials are rare.

FINANCIAL VIABILITY: 6.0

The war-time devastation of Bosnia’s economy, a limited pre-war tradition of philanthropy, and the dearth of post-war tax incentives designed to promote financial contributions to emerging NGOs severely constrain the sector’s financial sustainability. The last year has seen some progress in development of an in-kind domestic donor base but community or corporate philanthropy remain extremely rare. As a result, NGOs continue to rely heavily on foreign government funding; fluid and often politically-driven, donor priorities contribute to confusion and financial uncertainty among NGOs.

Many NGOs lack the skills in financial planning, accounting and financial management that might, together with identification of alternative financing methods such as membership fees, fees-for-service, in-kind contributions, and government funding, enable them to compensate for these constraints. Moreover, as a consequence of perceived political instability, organizations tend to live from project to project with very few making long-term strategic or financial plans.

Finally, and partially as a result of funding availability, many NGOs have considered turning to income generation activities that have little to do with their broader mission -- such as hairdressing and chicken farm management -- to promote financial sustainability. In the absence of regulations governing the power of NGOs to engage in sale of goods and services or limiting net revenue distribution, this tends to blur the line between not-for-profit and commercial business activity and exacerbate confusion about the concept of “civil society.”

ADVOCACY: 6.0

The sector's capacity for advocacy remains largely untested. Until recently, NGOs predominantly managed programs to address practical citizens' concerns related to post-war recovery. While a number of NGOs originally conceived as social service providers are taking on issue-based education functions, few have sought to engage the authorities in constructive cooperation. Though an increasing number of organizations recognize their potential to effect socio-economic and political change, many acknowledge their own lack of experience in establishing cross-sectoral relationships. Others resist overtly "political" activity.

Government agencies, while generally not openly hostile to NGOs, demonstrate little understanding of the merits of third sector activities. The governmental and non-governmental sectors therefore work in a parallel rather than an integrated manner, undermining NGO capacity to influence policy-making or efficiently complement the public sector.

Moreover, the concept of advocacy is difficult to adapt to, and implement in, an environment in which the neither the political nor legal systems enforce the accountability of elective or appointive representative structures. Individuals are confused by who is responsible for what (often looking at the international community rather than local officials to meet their needs) and remain intimidated by or alienated from their authorities. No word in the local language precisely expresses the spirit of "advocacy" as understood in English. At the same time, the subtle but important difference between "policy" and "politics" is difficult to understand. Future assistance to the sector in this area will need to be grounded in and driven by local experience.

PUBLIC IMAGE: 6.0

Few NGO leaders view their own sustainability as "a multi-stakeholder process," or a process from which the community as a whole benefits. Successful examples of cross-sectoral cooperation are un-publicized and therefore go largely unrecognized.

The sector's youth, the relative inexperience of its leaders, and the dearth of financially sustainable independent media have inhibited the evolution of a partnership between NGOs and the media. As NGOs also tend to carry out their programs in isolation from the authorities and broader community, the general public -- beyond the beneficiaries of specific NGO programs --- has had little exposure to the NGO sector's capacity to contribute to its welfare.

Rather than hostility, the sector as a whole faces ignorance and some resentment from government, the media and the public due to the perception that it is well financed by the international community. NGOs, however, increasingly recognize the importance of their public image and are seeking assistance in making use of their existing contact base.

BULGARIA:

Development of the Not-for-Profit Sector
1998

OVERALL RANKING: 3.6

Bulgaria's nascent NGO sector has made good progress in the areas of "Advocacy" and "Public Image", and has prepared a draft for a new NGO law that has been cited as a model for use in a number of other countries. Nevertheless, this draft has not yet been enacted into law, and little progress has been made in the important areas of "Organizational Capacity" and "Financial Viability". While the broader enabling environment and managerial/administrative capacity of NGOs can be expected to improve over the near term, the ability of these groups to secure adequate funding domestically will remain serious obstacles to sector sustainability.

LEGAL ENVIRONMENT: 4.5

Current NGO legislation dates back to 1949 (the Law on Persons and the Family). This law contains a number of gaps, ambiguities and restrictive provisions, including: involvement of the public prosecutor in the registration process, ambiguity as to whether legal entities may found or join an association, the absence of certain minimum requirements for the internal governance of foundations, and confusion over the extent to which NGOs are permitted to engage in economic activities. However, it is interesting to note that despite its restrictive provisions, the current law is being implemented in a fairly progressive manner.

Bulgarians have prepared a draft NGO law that reflects a number of international best practices. In fact, this draft has been used as a model in countries ranging from South Africa and Vietnam, to Hungary and West Bank/Gaza. Unfortunately, the draft has not yet passed in Bulgaria, because of political motivations, internal divisions within the sector, the focus on economic issues, and other reasons.

Bulgaria adopted new tax laws, which became effective on January 1, 1998. There was some concern that the focus on broadening the tax base would lead to a substantial reduction in benefits for NGOs. This was avoided, but the rules governing NGO tax exemptions, the deductibility of donations, and customs duty preferences still require revision.

ORGANIZATIONAL CAPACITY: 3.0

A small number of transparently governed and capably managed NGOs exist across a variety of sectors. Essential organizational skills demonstrated by a small number of NGOs include how to recruit, train, and manage a volunteer network. Strong organizations are emerging in additional locations other than Sofia. A professional cadre of local experts, consultants and trainers in non-profit management exists. An accessible network for identifying trainers and consultants exists. NGOs recognize the value of training, but the lack of financial resources remains a constraint. Topics of available training cover: legal issues for NGOs, communication skills, volunteer management, media and public relations skills, sponsorship and fundraising.

Most Bulgarian NGOs are composed of small groups of people with missing or fragile links to constituencies. Often, focus is on keeping organizations solvent through project writing and good reporting. The opening of NGOs to partnership building with outside stakeholders to development and effective outreach work is still very slow and limited. Most of the international donors' programs, including Democracy Network I, have limited impact on the institutional growth of the NGO sector with regard to its role in society. Often training is routine, without good "translation" to fit in the cultural context of the country and its relevant stage of development. Most of the existing in-country trainers have some theoretical knowledge in their area, but limited civic practice, which often reduces the impact of their efforts. Exceptions in this direction are organizations trying to link theory with practice, inviting practitioners in the relevant area to serve as trainers in their programs (i.e., The Foundation for Local Government Reform). Reduced effectiveness in training programs threatens to confine the civil society process to NGOs with limited outreach, instead of building them as institutions working on behalf of their constituencies, effectively communicating with all other stakeholders of importance to development.

DemNet monitoring data shows improvements in grantees' organizational capacities and performance. Progress has been made over the last six months to improve training standards and develop a registry of trainers that serve NGOs and donors. On the whole, however, more work is needed to improve organizational capacities in the sector.

FINANCIAL VIABILITY: 5.0

Little progress can be reported over the previous year's ranking or characterization of this indicator. Most Bulgarian NGOs are dependent upon foreign funding. New organizations survive from grant to grant, which usually is short term (6 months to one year). A few more established NGOs have longer term foreign funding (2-3 years). NGOs are exhibiting a growing capacity in proposal writing. Government funding does not exist or is very limited, both on the central and local level. Taxation policy and the depressed local economy do not stimulate local fundraising. There have been a few attempts to raise money locally, mainly for social assistance to orphans or disadvantaged children. There is limited awareness about the need to nurture future donors through education of

the public at large about the importance and impact of the NGOs. A few organizations publish their annual reports - mainly those who redistribute grants. Some publish case studies on their project activities. Transparency and accountability are at a very initial stage.

Individual NGOs are experimenting with raising revenues by providing services, winning contracts and grants to provide services from municipalities and ministries, and attempting to attract dues-paying members or domestic donors. NGOs are beginning to pool resources by sharing overhead costs, such as hiring one accountant for several NGOs. Programs are in place to accelerate financial viability by offering strategic planning, revenue raising and advanced fundraising skills training. This training is available from indigenous trainers and NGO support centers. NGOs are beginning to understand the importance of transparency and accountability, from a fundraising perspective. Fundraising training has been offered through groups such as ISC and the Union of Bulgarian Foundations and Associations, however the economic picture in Bulgaria is still depressed. While some groups, such as the Bulgarian Red Cross and Tasko Foundation in Plovdiv, have run successful fundraising campaigns, these are the exception rather than the rule. Citizenry rarely make financial contributions to CSOs, while some organizations, such as the Atlantic Club, have found corporate sponsors.

On the whole, the outlook remains gloomy for CSO's to achieve financial viability without continued international support.

ADVOCACY: 2.8

Progress has been made in increasing the role of NGOs in advocating positions and influencing public policy both at the grassroots and national levels. DemNet grantees, for example, have influenced national legislation concerning environmental protection, labor laws, and children's welfare. At the local level, an increasing number of NGOs have the skills and the support to lobby for changes in municipal regulations and ordinances. Coalitions of NGOs have emerged around issues such as the social assistance law, natural resource protection, and remain active in areas such as human rights and worker rights. DemNet training in areas such as lobbying and advocacy, working with the media, and public participation has increased the number of organizations with the skills to be effective advocates.

The NGO sector has the ability and capacity to respond to the changing needs, issues and interests of the community and country. As NGOs secure their institutional and political base, they are beginning to: form coalitions to pursue issues of common interest, such as the adoption of favorable media legislation by The Group for European Media Legislation in Bulgaria; monitor and lobby political parties; and monitor and lobby legislatures as well as executive bodies.

Existing NGO support centers like the Union of Bulgarian Foundations and Associations are not, however, effective with regard to advocacy. They serve more as technical providers of general

NGO information. There is growth in issue-based advocacy groups in the areas of human rights, minorities, children, the disabled, gender issues, and the environment. Some of them already have a positive record of opening discussions on important issues related to their constituencies. There is a general weakness in coalition building and suggesting alternatives at the policy level. Other groups, such as policy research NGOs ("think tanks"), serve as alternative policy analyses centers. A few of them have links to activist oriented NGOs or to advocacy groups, to link the policy research with emerging issues and practices from the field. Training provided in the area has had a limited impact

PUBLIC IMAGE 2.8

NGOs have enjoyed an increase in their public image over the last year. A recent national poll determined that NGOs are more trusted in Bulgaria than political parties, although the percentage of the population that are aware of NGOs remains somewhat low. The improved image of NGOs is attributable to more positive coverage in the press, a larger number of journalists who understand the role of NGOs in building and strengthening civil society, better public outreach by the NGOs, and more NGO publications, such as bulletins, that are disseminated more widely than in the past. NGO efforts in such areas as educational reform (starting school boards for example) and local government transparency projects, have encouraged many more citizens to become involved in NGO initiatives. The fact that the "first ladies" of Bulgaria, the Prime Minister and the President's wives, are involved in prominent NGOs, helps raise awareness of the sector in the general public. There is a growing public knowledge of and trust in NGOs, and increased rates of volunteerism. NGOs have coalesced to mount a campaign to win public trust. There are a number of examples of good working relationships between NGOs and national and local governments. Increased accountability, transparency, and self-regulation are developing within the NGO sector, including efforts to develop a generally accepted code of ethics. Still, understanding of the concepts "non-governmental" or "non-profit" among government officials, business leaders and journalists is very limited.

The effective involvement of NGOs in humanitarian assistance efforts in the country during the crises of 1996-7, and the winter of 1997-8 raised the public image of the usefulness of the NGO sector. The impact of NGOs in reaching out to the most vulnerable groups in society was recognized in the UNDP Human Development Report for 1997.

There are emerging attempts of some NGOs for more consistent work with the media, as well as educating government officials and the public of the development opportunities provided by civic self-organizing. Some local governments already have a record of good working relationships with NGOs in their municipalities, which is evidenced by long-term contracts for cooperation and joint initiatives. However, in most cases, NGOs are appreciated as a possible source of outside funding and other resources, to support limited local municipal budgets, instead of contractors to carry out local initiatives through local government funding.

CROATIA:
Development of the Not-for-Profit NGO Sector
1998

OVERALL RANKING: 4.4

Despite the substantial organizational capacities of a number of Croatian NGOs, the sector's activities and successes are still hampered by highly restrictive and unsupportive legal environment, a lack of available legal assistance, decreasing international support, a diversity and multiplicity of directions and activities, the lack of transparency and advocacy skills, and a lack of cooperation and intra-sector communication. It is estimated that there are no more than 500 active NGOs in Croatia.

LEGAL ENVIRONMENT: 6.0

The Government of Croatia (GOC) has been drafting and, in some cases, passing legislation which serves to regulate the activities of NGOs, undermine principles of freedom of association and otherwise restrict the development of a civil society. In general, the environment in which NGOs operate in Croatia has served effectively to restrict and limit the activities and successes of organizations. Success in NGO development in all areas is contingent upon an improved legal and regulatory framework.

A new Law on Associations came into effect in July, 1997. As a result of this law, all NGOs were required to re-register with the Government, a process which has been hindered by implementational problems in processing and has proven problematic for the NGO community in absence of formalized documentation, which is necessary to open and maintain bank accounts, pay staff, rent office space. The re-registration process has not occurred *pro forma* but has seen the NGO community scrutinized by the Government, down to the wording of the organizations' titles and nature of their activities. (For example, the use of the word "education" must be approved by the Ministry of Education or changed to another word. Likewise, "athletic events" were disallowed for a community center, which had to change the wording to "recreational activities.") The application of the laws appears to be indicative of civil servants' uncertainty about the intentions of the legislation, but the ramifications of this misunderstanding are impacting the NGO community. The Law on Associations was passed with only partial consideration of the comments and protests provided by NGOs and the international community. It allows for heavy involvement of the Government, including the right to suspend organizations for perceptions of financial mismanagement or activities considered "unconstitutional." Further operationalization of the law is

still unclear, but attempts are being made to change this law, possibly through a Constitutional Court ruling.

This past year has also been disappointing on a number of other legal fronts. A draft Humanitarian Organizations bill, a sub-sector NGO law which would have allowed the Government extensive involvement in the operations of humanitarian organizations, including required approval for individual activities and final approval of client base, was drafted, redrafted and finally overthrown after local and international protest. This bill may yet be revived in amended form. There have been several attempts to pass a Peaceful Assembly Public Protest bill, which would restrict the rights of individuals to gather and would place an inordinate responsibility on organizations planning public events. A new tax law, introduced in January, added a 22% VAT on all goods and services, with no exemption for NGOs. (Prior to the new VAT law, NGOs paid 10% tax on goods and services and were also exempt from customs, as they were registered as humanitarian organizations.) Comparably, tax-free status for corporate contributions, which existed to some extent before independence, only currently exists for athletic and cultural organizations, up to a set limit.

There is no corps of lawyers *per se* in Croatia. One law firm has facilitated re-registration issues for NGOs (meeting market demand for this) but that is the extent of their involvement. There are lawyers who are NGO activists, but largely their expertise is used for individual NGO issues and legislative concerns which do not address greater NGO issues. Legal advice is available informally, through word of mouth of those who have researched (from interest or necessity) NGO legislation. However, it should be kept in mind that this deficit is reflective of the lack of interest NGOs have in addressing legal environment issues.

NGOs are able to get government procurements; some by virtue of being a minority group, and others which meet the newly-defined conditions of operation in "national interest", which allows them to get funding from the government. Central and municipal funds are available and NGOs are increasingly getting these funds, although the system is, to some, not transparent and confusing.

ORGANIZATIONAL CAPACITY: 3.0

Note: The panel felt that last year's ranking of three was too high, and thought that a more appropriate measure was four. This year's ranking of three would therefore indicate improvement in this area over last year.

Over the past year, NGOs which have received funding from foreign donors have largely improved their organizational operations, both as a result of the training and technical assistance they have received and by virtue of their financial sustainability, which has allowed them to further strengthen their organizational capacity. Still, the experiences of NGOs varies by location, nature, and relationship to foreign donors (which often require NGOs receiving assistance to implement expected organizational structures and operational plans). Increasingly, organizations have boards

of directors and operational plans. This is not, however, the norm.

Active NGOs have permanent positions filled by salaried NGO activists who often contribute more time and assistance than they are remunerated for. Some NGOs are able to pay staff quite well, thanks to foreign funds. There is little volunteerism in Croatia.

There are a number of NGO trainers who have been trained and are working (with foreign funding) nationwide to address a host of topics. Training is not institutionalized and consists of individuals hired to provide training on an ad hoc basis.

Any NGO which has received foreign funds (i.e. all of the more active ones, and a number of smaller ones) have all necessary office equipment. Indigenous budgets would not otherwise allow for such equipment. One NGO has established an internet server and is offering computer training to other NGOs, but due to infighting among NGOs, it is underutilized by the greater NGO community.

FINANCIAL VIABILITY: 5.0

NGOs are in a very financially precarious position. Membership fees are nominal, when they exist, and do not constitute a significant revenue for NGOs. Continued economic distress has hampered individual contributions, and the absence of financial incentive to make donations reinforces this problem. The 22% VAT has hit NGOs hard, and the flow of funding from foreign sources is shrinking. Increasingly, NGOs are getting assistance (in cash and kind) from local governments. A Government decree on funding "National Interest" NGOs has been hotly debated, as it determines which NGOs are eligible to receive funds straight from the Government's budget. Although this debate was fruitful in that it actively engaged NGOs, the wording of the decree ("national" interest rather than "public" interest) was imposed by the Government and did not allow NGOs to voice their opinion about the framework for selection on a broader scale.

However, NGOs throughout the country are finding assistance from municipalities, which appear to increasingly acknowledge and respect the roles NGOs play in their communities. The State Directorate for the Protection of Nature and the Environment has been giving \$8,000 annually to the Regional Environmental Center for subgrants; the Ministry of Reconstruction and Development likewise has a pool of funds which it passes on to NGOs. Organizations working in the areas of psycho-social assistance and with youth appear to have the best relationships with local governments, and, thanks to affirmative action policies under the Law on Human Rights and Ethnic Minorities, ethnic minority groups are finding their share of the wealth from national and municipal budgets.

But while this improved relationship bodes well on one hand, it also raises concern about the suitability of NGOs receiving government funding and their ability to remain autonomous in light

of government support. True improvement in the financial situation of NGOs can only be made when the tax system is relaxed for non-profit organizations, and contribution incentive (both perceptual and financial) are afforded. Unless an organization receives a grant from USAID, or other fiscally demanding donor, sound financial management systems are not in place.

Grant proposal writing training has been provided for some time. Accounting, fundraising and financial planning and management training is available to a limited extent, but needs to be made more available and to be more fully utilized by NGOs.

ADVOCACY: 4.0

Advocacy has become a buzz word for NGOs. As the donor community has continued to emphasize the advocacy role NGOs can play and has apportioned grant funds accordingly, many NGOs have taken on the terminology without necessarily capturing the essence of advocacy actions. Only a few NGOs have an advocacy plan of action *per se* and organizations are both discouraged by the perceived complexities and hostility of the bureaucratic and regulatory systems and underestimate their ability to lobby for changes. Still, the frequency of advocacy-oriented actions appears to be increasing. A consortium of women's NGOs drafted and implemented a "Stop Violence Against Women" campaign. Green Action, an environmental NGO, campaigned successfully against a proposed nuclear power plant; NGOs have banded together to protest the laws cited above as well as the Criminal Code and Pension Reform bill and have seen some successes for their action. Some political parties are starting to court NGO support, but this is more the exception than the rule. The greater successes are based more on personal contacts in significant positions than on campaigns and lobbying activities. Often advocacy actions fall short of a greater goal, looking to fix more minor problems within the bigger picture. This results, in part, from the fact that NGOs are disenfranchised and do not have access to legislation or information before it is passed. Proactive action is difficult in an environment in which information is not shared. Further, concern about political repercussions and feelings of disempowerment, which seem to be the largest roadblocks to further success in this area.

PUBLIC IMAGE: 4.0

There continues to be a general sense of confusion and misunderstanding about the role of NGOs in society. Cities and villages which have had a targeted public information campaign on the activities of local organizations have seen improved understanding and support for their activities, while populations in other areas, including the capital, admit continued confusion about what NGOs are. The general public does not yet understand that NGOs represent their interests and rights. NGO relations with the media have improved somewhat since last year, as NGOs have started actively seeking interested contacts to promote their messages and interests. The frequency of reporting on NGO activities in the press has increased and as NGOs have learned how to better prepare press releases, their image has improved. But there is still a long way to go. NGOs are generally

perceived (when they are understood) as being ineffective, poorly organized, and (sometimes) anti-ruling party in nature, which many are, to varying and lesser degrees. However, as they have improved their operations, inter-NGO networking and public image, the public has been slow to reexamine NGOs and reappraise their value. A concerted effort working with NGOs, the media, and government officials has led to better relations in the past year. NGOs need to continue to strengthen their public relations skills in attracting the interest of the average citizen.

GEORGIA:
Development of the Not-for-Profit NGO Sector
1998

OVERALL RANKING: 3.6

With the continuous financial support of international donors, it is expected that the number and sophistication (including financial and managerial capabilities) of active NGOs will grow significantly. From the perspective of NGO sustainability, a central priority needs to be to improve the present tax regime's treatment of NGOs. Training on NGO management and development issues, along with individual consultations, still remain a major need. More assistance is needed in regions outside of Tbilisi.

LEGAL ENVIRONMENT: 3.0

Progress: As a result of the work carried out by a group of representatives from different Georgian NGOs, focused on legal issues, a number of significant improvements have been made in the present legislation regulating NGO activities in Georgia. There is no separate legislation on NGOs. Articles from the Civil and Tax codes of Georgia govern the NGO sector. NGOs were very active in drafting the chapters of the legislation directly related to NGO activities. A satisfactory initial legislative base for NGOs has been built. Appropriate amendments to articles relevant to NGOs, in the Civil Code and Tax Code, were made. The new Civil Code (1997) and Tax Code (1997/98), both of which affect NGOs, were passed and have gone into effect. NGO activities in Georgia are regulated by the Civil Code of Georgia, the Tax Code of Georgia and the Organic Code Regulating the Liquidation of an NGO, in addition to the Civil Judicial Procedure Code which addresses certain questions of NGO registration. The new Civil Code recognizes two types of non-entrepreneurial legal persons (NGOs): associations (membership-based) and funds/foundations (property-based). There are some local lawyers who are familiar with NGO legislation. Some members of the Georgian Young Lawyers Association are considered to be the best experts in NGO legislation.

Constraints: One of the main constraints is the lack of an intermediary law to provide NGOs (charities) with benefits or tax exemptions, for certain types of business activities (i.e. providing social services and creating employment opportunities for refugees or the disabled). One disadvantage of the present codes regulating NGO activity is that they do not clearly define when business activities carried out by an NGO (i.e., for education or publishing purposes) can be considered charitable and beneficial for society -- and therefore receive special tax consideration. The legislation does not currently provide mechanisms for deduction of donations for charitable

purposes. NGOs are aware that the legislation must be crafted carefully, in order not to allow the abuse of tax privileges for purely commercial gain. For these reasons, the current draft (and the current review process) of the proposed bill on "Charity Activities and Charity Organizations in Georgia" (created and publicized by NGO leaders) is considered a high priority. Many NGOs do not want to establish an association or a fund/foundation, per se, but an "institute" (educational/think tank). Despite aggressive lobbying on this point by NGO leaders during the consideration of the Civil Code, this additional legal form was not included in the approved Code. While the new Civil Code has eased the process for forming NGOs, the institutions (local judges and Ministry of Justice) responsible for these services are still in need of substantial training, especially on a local level outside of Tbilisi.

ORGANIZATIONAL CAPACITY: 4.0

Progress: The organizational capacity of many NGOs has grown substantially. The vast majority of highly developed NGOs have a board of directors and permanent paid staff. There are several NGOs offering training programs; including training on NGO management and development, basic computer classes and internet training, which facilitate capacity building among NGOs. Many NGOs have been created, gained experience, and then have gained access to appropriate training programs. Existing training on NGO managerial issues has responded effectively to the changing needs of developing NGOs. The Horizonti Training and Consulting Program offers the following training: NGO organizational structure and board development, strategic planning, financial management, proposal writing, community fundraising, relations with mass media, business and government, and information management. Horizonti also provides a seven-day generic introductory course for NGO development and management, and individualized consulting sessions. Georgian NGOs that have existed for over a year, are generally well-equipped, including access to internet and e-mail.

Constraints: The main constraint facing NGO organizational capacity is that the majority of NGOs are dependent upon foreign financial assistance/grants. A few NGOs offer fee-based services, which are considered fully taxable under current legislation, but they are clearly an exception to the overall picture. This situation must be considered in light of the overall economic situation of the past few years. Today, NGOs seem to be in a good position to develop self-sustaining strategies if the economy continues to improve. The tradition of volunteerism is not yet well-developed, and is one of the problems that Georgian NGOs will need to address. According to Horizonti, NGOs need to create programs that will attract volunteers and offer certain benefits for their future careers, etc. NGOs on a local level outside of Tbilisi are much weaker in terms of organizational capacity, than NGOs in the capital. More training and assistance is needed in the regions.

FINANCIAL VIABILITY: 4.0

Progress: While many NGOs have improved their skills in proposal-writing and fundraising, and have succeeded in such activities, the question of overall financial sustainability of the sector remains less positive. The majority of money received by NGOs comes from foreign grants. Local donations are not significant.

Constraints: Income from fees for service is very insignificant. There are no tax exemptions for income generating activities carried out by NGOs. Few income generating projects have been implemented. The lack of alternative sources of funding is related to the overall lack of local interest/support for western type philanthropy. No local endowments have been attempted, probably due to weak philanthropic traditions, the weak economic situation and existing regulatory legislation.

ADVOCACY: 4.0

Progress: Certain NGOs have successfully lobbied for legislation. One noticeable example is the amendment of articles relevant to NGOs in the Civil Code and the Tax Code. NGOs in many different fields are receiving and exchanging drafts with the legislative branches of the Parliament. They are frequently asked for comments and suggestions.

Constraints: The lobbying process remains very difficult. There are many subjective factors influencing the process, including the lack of a "culture for lobbying". Cooperation among different NGOs -- especially those working on health care, youth issues, education and humanitarian issues -- is not strong and can be improved. There are no examples of NGOs with multi-ethnic membership/cooperation efforts.

PUBLIC IMAGE: 2.0

Progress: Although there is a significant increase in the coverage of NGO activities, both in printed media and on television programs, the image of NGOs among the general public must be improved extensively. NGO activities are publicized only as a result of aggressive "self-promotion" by the NGOs themselves. In general, the media is not particularly interested in highlighting NGO activities. A high priority must be the stimulation of the media to track and highlight NGO events. Similarly, the lack of awareness of NGOs on the part of government is especially noticeable on a local level, in the regions outside of Tbilisi.

Constraints: The media, business and government do not fully understand the importance and role of the Third Sector. This facilitates constraints the environment in which NGOs must work. Regular commercial advertisements and social advertisements (public service announcements) cost the same, partially due to the inappropriate taxation policy. It is very difficult for NGOs to promote their causes through such mechanisms.

OVERALL RANKING: 1.6

As the not-for-profit sector continues to mature, a major concern of the program during the close-out period, and the issue against which the success of civil society development in Hungary will be gauged, is the relationship between NGOs and the public and private sectors. With the continued increase in legitimacy and capacity of the Third Sector as a partner in service delivery and decision-making, there must be reciprocal increases in levels of cooperation and support from government and businesses to insure sustainability. Simultaneously, NGOs must continually prove themselves as worthy partners, both to private and state institutions, as well as to the public as a whole.

Hungarian NGOs have proven themselves very capable of creating and implementing innovative programs in a number of fields. Examples include supporting NGO-local government cooperation, with training and grants being provided to both sides for project implementation.

Vulnerabilities exist in a number of areas. Regional differences are very pronounced in Hungary, measured by dramatically divergent investment patterns, unemployment rates, and per capita GDP. NGO development mirrors economic development. This presents a great challenge, namely that in those regions where needs are objectively the greatest, indigenous resources for NGOs are the scarcest. Another area of great concern are those problems facing the Roma community.

HUNGARY:

Development of the Not-for-Profit NGO Sector
1998

LEGAL ENVIRONMENT: 1.0

Progress: The legal environment in which non-profit organizations operate in Hungary has improved substantially in the last few years. The Government of Hungary (GOH) enacted comprehensive NGO legislation in December 1997, which lays out financial and reporting criteria, and seeks to remove inactive NGOs from the official registry. This legislation offers several benefits to not-for-profits, including the opportunity to compete for public procurement at the local and regional levels, especially in the areas of social services. Long-term benefits of the legislation will likely include a gradual improvement in the credibility of the sector. Currently there is some degree of skepticism as NGOs have been used as tax-dodges in the past. The GOH has also enacted

so-called “One-Percent Legislation”, which allows citizens to designate a registered NGO to which one percent of their income tax will be transferred. While there have been some difficulties encountered at the beginnings of the program, steady improvements have been made. This legislation has also helped NGOs realize the benefits of reaching out to their local communities, and increases the exposure of the sector in general. Provided that NGOs register under the new law on Not-for-Profits, they are allowed tax-benefits based upon the kind of NGO they qualify as. Public Benefit Organizations (PBOs) are defined according to the type of work they do (civil service, working for the public benefit, etc.) and are given tax and fiscal preferences. Mutual Benefit Organizations (MBOs), which work exclusively for the benefit of their members (political parties, trade unions, insurance associations, etc.), do not receive these benefits. Registration procedures are relatively straightforward.

Constraints: Areas of concern revolve largely around the methods the GOH uses to distribute resources to NGOs. Issues of transparency are often noted in regard to the NGO funding programs run by the various ministries. With regard to the One-Percent Law, NGOs are unable to find out which citizens have selected them for funding, which makes it difficult for them to thank and further involve donors.

ORGANIZATIONAL CAPACITY: 2.0

Progress: Organizational capacity, as measured purely in the number and variety of NGOs, is strong. Currently, there are between 40,000 - 50,000 legally registered NGOs. (It must be noted that until the recent legislative changes, there has been no means or incentive to de-register an NGO, so no one knows exactly how many are truly active). In examining how professionally these organizations actually function, the picture is more blurred. Certainly the situation has improved in the last few years, due in no small part to the many training programs offered by foreign donors. The quality and innovativeness of proposals have shown marked improvement.

Constraints: Organizational capacity varies tremendously. Most NGOs tend to be small grassroots ventures, and as such, usually do not have a full-time employee. There are of course examples of stronger NGOs with strong capacity and more elaborate organizational management, but in absolute numbers these are in the minority. Weaknesses are present in areas such as reporting, strategic management, and public relations. The degree of these weaknesses is very much dependent upon sector and region. Environmental NGOs, for example, have become among the most professional, as they have been in existence the longest in Hungary. NGOs outside of Budapest, especially those in the economically depressed eastern region of Hungary, have far greater needs in organizational capacity.

FINANCIAL VIABILITY: 2.0

Progress: Approximately 60% of NGO resources in Hungary are revenues from basic or related activities. This suggests that NGOs have developed the beginnings of a core base of support (20%

comes from domestic donations, and the final 20% comes from foreign donations). The new NGO law provides increased possibilities for public sector contracting. Hungarian NGOs are still in the beginning stages of approaching commercial and corporate sponsors. For some NGOs, this is not seen as a viable strategy at this point in time, particularly in disadvantaged regions where companies often do not have resources to spare. The “one percent law” will eventually help NGOs develop stronger ties to their local communities as well as providing financial support. NGOs in Budapest and environs have proven to be quite successful in capturing funds from ministries, foreign donors, and multinational corporations. Generally, financial management systems are in place, although they can be weak, or very simple.

Constraints: Financial viability is very much a function of regional distribution. Although only one-third of Hungarian NGOs are located in Budapest, these NGOs have two-thirds of all the sector’s resources. Unfortunately, the greatest needs are actually outside of the capital city, which has a per capita GDP double the nation as a whole. There is great concern in the NGO community, about the withdrawal of foreign donors and the effect that this will have on institutional stability. It is too early to call the Hungarian NGO sector as a whole “sustainable”. There will be some degree of consolidation, both because of the new NGO law and because foreign donors are shifting resources to other countries. Important areas are particularly vulnerable, especially those NGOs providing innovative social and educational services in poorer regions.

ADVOCACY: 1.0

Progress: The most prominent example of the NGO sector as public policy advocates on the national level, was their active participation in the regional debates prior to the passage of comprehensive NGO legislation. NGOs have been actively involved in advocating for employment possibilities for those with disabilities, culminating in a substantial effort by the Labor Ministry towards this goal. Environmental not-for-profit organizations have arguably run the best organized and most professional advocacy efforts, nationwide.

Constraints: Although the number of NGOs engaged in advocacy increased from 5,061 in 1993 to 6,500 in 1997, the weakest element of the activity of NGOs in their local communities remains their effectiveness as advocates. The concept of advocacy in the context of local governance and how it differs from basic organizational development is not yet well defined. It is hoped that the procurement possibilities provided under the new not-for-profit legislation will create opportunities for NGOs to become more active in decision making processes at the local level. Except for environmental NGOs, local level advocacy is very weak, and coalitions around issues generally are not formed. Advocacy as a concept does exist, but is practiced at the local level with varying success. Usually advocacy does not exist in conjunction with other organizations.

PUBLIC IMAGE : 2.0

Progress: The impact of the One-Percent Law and the new NGO law will primarily be felt only over the long-term. One change, however, has been rather immediate: NGOs have begun to undertake concentrated efforts to inform their local communities of their activities. The fact that the One-Percent Law has proven to be popular with the public at large suggests that perceptions are generally improving. As people begin to read more stories about the vast majority of NGOs that do good work, and less about the sensational cases when NGOs have been used as tax dodges, the public image of the not-for-profit sector will improve.

Constraints: Very often in Hungary, NGO personnel do not speak the same language as business and government members. This may be in part a consequence of providing segregated training solely for NGO activists. Nor do most NGOs have a sophisticated media/PR strategy. Media coverage of NGO activities tends to be modest. At a joint US-EU awards ceremony, the President of Hungary recently admonished the Hungarian media to take more notice of the sector. As previously stated, the Hungarian non-profit sector has suffered for some time from a popular perception that NGOs are a convenient way of hiding money from tax officials. This has caused a wariness and skepticism among the public, which can be healthy, but which also makes it difficult for worthy grassroots organizations to find financial support. The true test of the public image of NGOs will be measured by levels of individual (not institutional), indigenous support through contributions and volunteerism.